Subscription to Success

A fast-growing business model delivers consistent revenue in hard times.

> "SUBSCRIPTION BUSINESSES TEND TO BE MORE RESILIENT. HAVING PREDICTABLE, RECURRING REVENUE WINDS UP BEING A HUGE COMPETITIVE ADVANTAGE."
>
> **TIEN TZUO**
> FOUNDER & CEO
> ZUORA

SUBTA
Subscription Trade Association

WHEN PUBLIC HEALTH RESTRICTIONS SENT THE GLOBAL economy into a tailspin this year, companies of all stripes were suddenly reminded how important customer retention is to revenue, margins, and even solvency. What might have gone unnoticed, however, is how one fast-growing business model has made revenue ultra-resilient across a host of industries, even in an unprecedented economic storm.

The "subscription economy," a term trademarked by Zuora, a Redwood City, Calif.–based provider of cloud-based software for subscription-based businesses, is modeled around customers opting to receive repeat fulfillment of everything from dinner to digital content. Across the globe, 7,000 companies sell subscription boxes, according to the Subscription Trade Association (SUBTA). And that number doesn't include providers of many other subscription types, such as streaming services or wholesale club access.

Fueling the proliferation of subscription-based strategies is what Zuora calls "the end of ownership." Fifty-seven percent of adults wish they could own less "stuff," according to a 2019 Harris Poll commissioned by Zuora. Seventy percent believe subscribing to products and services frees them from burdens such as maintenance, clutter, and declining value.

"Today's consumer is more focused on usership than ownership," says SUBTA CEO Paul Chambers. "More and more companies are coming online to fulfill that consumer's needs, including some they maybe didn't know they had."

Cultivating subscriptions has become a ticket to growth. Zuora's Subscription Economy Index, which tracks sales of subscription-based businesses, found an 18.2% compound annual growth rate from January 2012 to June 2019. (That's compared to 3.6% for S&P 500 companies and 3.7% for U.S. retail.) Companies with subscriber-based revenue streams account for 18% of all credit card sales, or about $7.38 trillion, according to SUBTA's annual report.

"Subscription businesses tend to be more resilient," says Zuora founder and CEO Tien Tzuo. "Having predictable, recurring revenue winds up being a huge competitive advantage. All your customers aren't going to cancel next month—it's just not going to happen."

Now, as the current global recession puts business models to the test, subscriptions are demonstrating just how much of an advantage they offer. For 75% of companies with subscriber-based revenues, subscriber acquisition rates either remained steady or accelerated during March 2020, according to Zuora's COVID-19 Subscription Impact Report.

"Businesses are seeing much higher valuations when they've got reoccurring revenue," says SUBTA chairman Christopher George, who provided the example of Chewy.com, which set a record for an e-commerce company when it sold for $3.35 billion to PetSmart in 2017. SUBTA projects that by 2023, 75% of companies selling directly to consumers will offer subscription services. That means they'll be in a strong position to face whatever lies ahead, whether it's brighter days or more stiff economic headwinds. ■

ACCELERATING YOUR SUBSCRIPTION STRATEGY

Zuora helps companies new and old gain subscribers and predictable revenue.

IN THE EARLY 2000S, TECH ENTREPRENEUR TIEN TZUO ASKED A BIG QUESTION: If software makers could build better businesses and recurring revenues by enlisting subscribers, would all companies do better with subscribers of their own?

Yes, they would, he concluded. So he founded Zuora in 2007 to help make it happen. A public software as a service (SaaS) company headquartered in Silicon Valley, Zuora equips companies across industries to launch, manage, or transform into subscription-based businesses.

"It tends to be a higher-margin business model," Tzuo says. "And it repeats. If I know I'm going to get a dollar for 10 years, obviously that dollar is much more valuable than a dollar I only get once—and then I have to go find another dollar."

Initially, Zuora's target market consisted of industry disruptors. Just as Netflix used a monthly movie subscription model to topple video rental giant Blockbuster, other startups aimed to do likewise. But over time, long-established companies began cultivating subscribers too. A turning point came when Adobe began offering access to continually updated products for a regular fee. And the universe of subscription-based businesses continues to expand as the likes of Ford, Caterpillar, and General Electric are shifting to enlist subscribers.

"These are companies that are 30, 50, 100, 150 years old, saying: 'We can transform,'" Tzuo says.

Today, subscriber benefits take various forms, from instructional content to motor oil replenishment, as manufacturers use the Internet of things to learn how customers use the products they bought. Knowing how many miles a driver logs per month or how often he uses his washing machine enables manufacturers to turn customers into subscribers of supplemental services and accessories that can enrich their lives.

"That's what allows us to think like a services company," Tzuo says. "People are realizing now it's actually not about the products. It's about the customer, and how we can have a digital relationship with them that transforms them from occasional purchasers to ongoing subscribers."

zuora